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SUBJECT: Faymann In Moscow: Austria Reaffirms South Stream Interest;
Russians Push Hard on Gas Issues

REF: Moscow 02784

Sensitive but Unclassified - Protect accordingly.

¶1. (U) Austrian Chancellor Werner Faymann discussed energy and transportation issues with Russian President Medvedev and PM Putin during a November 10-11 trip to Moscow. According to press reports, the Medvedev meeting was a brief courtesy visit while the Putin meeting was a three-hour discussion that the Russian PM later described as "fact based" and "trustworthy."

SOUTH STREAM
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¶2. (SBU) Faymann and Putin confirmed that Austria will become a partner in the South Stream pipeline project, if the negotiations on the details are successful. The pipeline (or, more likely, one branch of the line) would then terminate at the Austrian/OMV gas hub in Baumgarten. Russia hopes that a final agreement can be concluded by the end of the year. However, contacts in the Chancellery and Austrian energy company OMV told us in the lead-up to the visit that reaching an agreement by the end of 2009 will be difficult, as the Austrians and Russians are still quite far apart on legal and technical issues. According to Chancellery contacts, the Russians have been pushing for months to make a South Stream agreement a centerpiece of the visit, and Austrian press reports affirm that Putin personally (accompanied by Gazprom CEO Alexei Miller) pushed Faymann very hard on South Stream.

¶3. (U) Faymann told reporters that Austria "will take gas from wherever it comes, as we need long-term energy security." He noted that gas consumption is expected to significantly increase in Austria in the coming years. Faymann reportedly assured Putin that the planned Nabucco pipeline is not competing with South Stream -- Putin's reply reaction after the meeting was to say publicly that all pipelines circumventing Ukraine could help to "discipline" that country. At Putin's request, Austria and Russia are planning to set up a bilateral energy working group.

RUSSIA-UKRAINE GAS DISPUTE
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¶4. (U) Putin said bluntly after talks with Faymann that if Ukraine "cannot pay for our gas, we will not deliver it. If Ukraine takes out our transit gas, we will reduce the amount of supply to Western Europe." Faymann tried to allay public fears by saying he is confident in Ukraine's ability to pay its bills and in the EU's capacity to serve as mediator between Russia and Ukraine.

AVIATION / RAIL
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¶5. On transportation, the leaders discussed air service rights for Austrian Airlines (AUA) in Russia following its recent takeover by Lufthansa, where Russia agreed to extend AUA rights through February (but rights will then have to be re-negotiated (NOTE: Faymann

tried to convince the Russians that AUA is still an "Austrian company" under the terms of the bilateral air service agreement, despite ownership by Lufthansa). Leaders also confirmed plans to extend a Russian-gauge (which differs from EU standards) rail line through Slovakia to the Danube, which would facilitate container shipments from China to central Europe.

COMMENT

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[¶6](#). (SBU) Faymann's trip to Moscow was his first major foreign policy expedition outside the EU, and natural gas was sure to top the agenda. The GoA has long said it wants to participate in South Stream (but Nabucco is its "first priority"); until now, the GoA has taken a "go slow" approach on South Stream, letting sticky regulatory/tax issues (driven in part by EU regulations) slow the negotiations. If press reports are accurate about closed-door meetings, the Russian side was insistent in pushing for Austria to sign a South Stream agreement this year, or the pipeline could terminate in Slovenia, not at the Baumgarten hub. END COMMENT.

EACHO